April 26, 2016

Gerard Poliquin, Secretary of the Board
National Credit Union Administration
1775 Duke Street
Alexandria, Virginia 22314-3428
boardcomments@ncua.gov

Re: Comments on OTR Methodology and Operating Fee Schedule

Dear Mr. Poliquin:

On behalf of the 1.453 million credit union members we represent, the Heartland Credit Union Association (HCUA) appreciates the opportunity to comment on the National Credit Union Administration's (NCUA) Request for Comments on the Administration Operating Fee Schedule Methodology and the Overhead Transfer Rate (OTR) Methodology. HCUA will combine its comments on both funding mechanisms into a single letter.

The NCUA's Operating Budget is funded through two primary mechanisms:

1. The OTR, funded by federally insured credit unions, both federally and state chartered; and

2. Operating Fees, funded only by Federal credit unions (FCUs). As such, HCUA has chosen to combine its comments on both funding mechanisms into a single letter.

The Federal Register notice requests specific comments on the OTR's allocation of insurance and non-insurance related activities to the Operating Budget and the methodology used to determine the value of the work performed in Federally-Insured credit unions (FISCU) by State Supervisory Authorities (SSA).

Insurance Related Activities

NCUA's definition of "Insurance Related Activities" essentially equates anything that is "safety and soundness" with being insurance related. This necessarily assumes that there will be no safety and soundness oversight in connection with its role as a prudential regulator under Title I. In short, "Insurance Related" does not equal "Safety and Soundness". NCUA even acknowledges this, in part, noting that "some consumer protection regulations may also be directed at safety and soundness." Yet safety and soundness is only carved out of overhead transfers as they relate to consumer protection regulations.

This definition shifts charges to the NCUSIF for <u>all</u> safety and soundness functions (other than those related to consumer protection), where some of the safety and soundness function should be clearly allocated to the proper Title I function and assessed only to federally chartered credit unions. Safety and soundness should not be a catch-all by which NCUA can allocate all of its activities for purposes of having the NCUSIF fund the agency.

To that end, Title I spells out many of the powers of a Federal credit union including the ability to make loans (personal, residential and business), the power to invest its funds, to make contracts, to sue and be sued, and to purchase and hold property, among many others. Further, Title I expressly requires the submission of financial reports, examinations, access to books and records, and overall supervision by the NCUA of Federal credit unions. Arguably all of these functions, including those delegated to Federal credit unions under Title I, and those related to the reviewing of financial reports, examinations and overall supervision should correspond to the funding mechanism for FCUs under Title I. Much of these Title I functions involve issues of safety and soundness yet are not allocated to the operating fee for Federal credit unions, but instead are funded by the OTR. The plain reading of the Title II statutory language states that examinations required under Title I shall be conducted such that the information can be utilized for share insurance purposes, not the other way around. It stands to reason that the current OTR method therefore does not allocate expenses according to their respective statutory titular function (i.e. Title I vs. Title II).

HCUA advocates that the NCUA should seek efficiencies under the dual examination system and work more closely with state regulators to implement efficiency measures. Our member state-chartered credit unions often report that there is significant overlap of state and federal examinations. Both the FCUA and NCUA's own rule contain the express directive to utilize other examinations to the maximum extent possible. NCUA should go much further in utilizing and relying on other regulators' work product than it currently does. Not only will this benefit credit unions directly, but it should result in savings to the overall charges under both the OTR and Operating Fee. Further, we suggest the NCUA should make serious strides towards moving to an extended examination cycle and consider the Federal Deposit Insurance Corporation (FDIC) model of alternating examinations with state regulators on an 18-month cycle.

As always, we appreciate the opportunity to review this issue. We will be happy to respond to any questions regarding these comments.

Sincerely,

Bradley D. Douglas

Brad Douglas
President/CEO